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EEB FOR DAS HENGEL
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SUBJECT: PROTECTING U.S. INTERESTS AS ITALY GOES NUCLEAR

REF: ROME 1184

Classified By: Economic Minister Counselor Thomas Delare for reasons 1.
4b and d

¶1. (C) Summary: The Berlusconi Government tells us it is serious about re-launching the Italian nuclear energy sector. If the GOI actually follows through, there will be tens of billions of dollars in commercial contracts. Already, we see high-level lobbying by British, French and Russian government leaders, all of whom are apparently seeking to ensure that their firms participate in this potentially enormous project. Italy will be making key decisions in the next 6 to 12 months; the USG should weigh in with the GOI to ensure that U.S. firms face a level playing field. We should also push for the GOI to factor energy security considerations into its decision-making. GOI officials tell us that Russian nuclear energy technology and companies could win contracts to build Italian nuclear power plants. POTUS may want to discuss USG interests on these issues with Berlusconi during his October Washington visit. End Summary.

¶2. (C) The new Berlusconi government followed through on its election platform promise and announced last May that it intends to bring back nuclear power to Italy. On September 16, EmbOffs met with Daniele Mancini, Diplomatic Advisor to the Ministry for Economic Development, to get an up-date on progress in this endeavor. Mancini told EmbOffs that the GOI is committed to reviving Italy's nuclear energy program, with a goal of starting construction of nuclear energy plants in five years. Mancini explained that Economic Development Minister Scajola's objective is to achieve an Italian energy mix of 50 percent traditional sources (oil and clean coal), 25 percent renewable and 25 percent nuclear. Mancini told us Italy would be purchasing nuclear power plants "off-the-shelf", and added that the exact procedure under which the purchasing decisions would be made is still unclear. Asked if the GOI would be purchasing plants directly, or if an Italian firm would be tasked with managing

the sub-contracting, Mancini reiterated that these aspects are still unknown. He made strong references, however, to Italian electricity parastatal ENEL, and suggested it will have a key role in the process (i.e. prime contractor). On next practical steps, Mancini said the GOI expects to have by year's end an approved plan for the storage of nuclear waste and the identification of 4 to 5 sites where the new nuclear plants will be built. The decision process on choosing who will build the plants will follow.

¶3. (C) Mancini's comments suggests that the French and the Russians are already maneuvering and lobbying for contracts. Firms from both companies may enjoy advantages derived from already established ties with ENEL. Mancini said that ENEL has already entered the nuclear field indirectly through business deals with the French and Russians, and that Minister Scajola has scheduled Fall visits to France and Finland to learn more about the new nuclear plants being built there. (Note: ENEL has a deal with France's EDF for a 12 percent stake on its new nuclear plants, the first new one being built by French Areva in Flamanville. ENEL also bought a nuclear power plant in Slovakia built by the Russians, thereby acquiring Russian nuclear technology -- it is developing expertise on how to run it. Areva is building Finland's newest nuclear plant at Olkiluoto. End note).

¶4. (C) On a separate September 11 meeting with EconOff and FCS officers, Westinghouse representatives raised concerns about French and Russian competition. Westinghouse said it is interested in participating in a future Italian nuclear energy sector, and would offer to build the company's newest nuclear plant model (the AP 1000). Due to ENEL's French and Russian business deals referenced above, however, Westinghouse is concerned that the GOI will only consider French or Russian nuclear technology options for the building of power plants. In addition, ENEL reportedly told Westinghouse that the French and the Russians are lobbying the GOI at very high levels, but that the GOI is not hearing from the U.S.

¶5. (C) Mancini also told us that foreign governments and companies have started lobbying the GOI, and said Westinghouse and its Italian partner Ansaldo Nucleare had already scheduled to meet with him (Note: Germany's E.ON CEO was in Rome on September 10 - 11 to discuss energy business opportunities and, according to press reports, met with Under-Secretary Gianni Letta, Environment Minister Stefania Prestigiacomo and the President of Italian Energy Authority Sandro Ortis. End note).

¶6. (C) Comment: We too have noticed that the GOI is being lobbied by foreign governments at very high levels in an effort to sway the Italians on its choice of nuclear technology. During his September 10 trip to the UK, we understand from press reports that Berlusconi discussed nuclear energy cooperation with Gordon Brown. Moreover, energy cooperation is likely to be a topic of discussion during Berlusconi's scheduled November 7 trip to Russia, with the signing of some type of energy cooperation agreement already foreshadowed. Who Italy chooses to build its nuclear power plants has important implications for U.S. interests. Given ENEL's nuclear business stake with French EDF, its growing commercial deals with Russia and Berlusconi's close relationship with Putin, there is a possibility of an Italian top down decision to go with either French or Russian nuclear technology. In addition, corruption is pervasive in Italy, and we fear that it may be one of the factors we will have to contend with as this matter evolves. Either French or

Russian choice will shut U.S. companies out of of potentially lucrative business opportunities. More importantly, a decision to choose Russian nuclear technology will make Italy further dependent on Russia for its energy supplies, decreasing its energy security.

17. (C) Comment continued: That said, there is still time for the U.S. to weigh in on Italy's choice of nuclear technology partners. That decision will likely be made at the top echelons of the GOI, and we should engage at the highest levels if we want to ensure favorable consideration of U.S. companies and protection of U.S. geo-political/energy security interests. We recommend that Italy's nuclear power options be on the USG's agenda during Berlusconi's Washington October visit.

18. (C) Comment continued: The up-coming visits by Department of Energy DAS Dennis Miotla, Department of Commerce DAS Jaime Estrada/State CBA Special Representative Frank Mermoud and Special Envoy Boyden Gray are excellent opportunities to start engaging with the GOI, and to present U.S. nuclear technology as a strong option to be considered. We recommend that the DAS's, Special Representative and Special Envoy be prepared to comment on U.S. views on possible Russian participation in Italy's nuclear power program. The visiting officials should also be prepared to remind their Italian interlocutors of their obligations to carry out a fair and transparent bidding process for future nuclear energy contracts. These visits will be an excellent start for USG efforts on this subject, but it is important to realize that competitor countries are weighing in at the highest levels; in our efforts to protect U.S. commercial and geopolitical interests, we should be prepared to do the same. End comment. SPOGLI "